SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

Börsenstrasse 15
P.O. Box, CH-8022 Zurich
Telephone +41 1 631 31 11
Fax +41 1 631 39 11
http://www.snb.ch

Zurich, 25 April 2003

Money Market and Foreign Exchange
HG

Dear Madam/Sir

Repo at the Lombard rate

Repo business in Swiss francs has gained growing importance in recent years. The repo system was developed in several steps and has proved to be both reliable and efficient. Monetary policy transactions and the auctions for the Confederation's bond issues and money market debt register claims are transacted via the Eurex Repo trading platform. Repo transactions are also the means by which the Swiss National Bank (SNB) provides intraday liquidity to the banks. Liquidity adjustments in Swiss francs between the banks are also increasingly carried out through repo transactions.

SNB Lombard loans are designed as a safety valve, particularly in connection with payment transactions. A bank that has been extended a Lombard credit line can draw on this in the short term to bridge an unexpected liquidity shortage. Therefore, the agreed credit line must permanently be covered by securities acceptable as collateral. Currently, collateral to the countervalue of more than Sfr 10 billion is deposited at and pledged to the SNB.

In future, the Lombard facility may be drawn on through a repo transaction. This permits better securities management. Collateral must continue to be set aside as coverage for the Lombard limit. In future, these will be held in the name of the bank in a separate safe custody account at SIS SegaInterSettle (SIS Lombard safe custody account). SIS is responsible for ensuring compliance with the coverage regulations and for reporting.

The transfer from the safe custody account at the SNB to SIS give the banks greater flexibility in the management of their collateral. This collateral may be transferred at any time - while complying with cover regulations - between the regular SIS safe custody account and the SIS Lombard safe custody account. In particular, the banks may use the collateral during the day for acquiring intraday liquidity. As soon as a bank has implemented the change in system from the traditional safe custody account for collateral to the SIS Lombard safe custody account, intraday liquidity may be obtained exclusively against collateral from the SIS Lombard safe custody account.

As in the past, the banks will apply for a Lombard limit which lays down the maximum possible utilisation and is usually valid for a year. Recourse to the Lombard facility will in future be in the form of an overnight repo transaction via the Eurex Repo electronic trading platform. The official Lombard rate of the SNB will apply. As for the intraday repo, a haircut of ten percent (100 percent money against 110 percent securities) has been set. This means that the agreed Lombard limit must also permanently be covered by 110 percent collateral. Even though a repo at the Lombard rate constitutes a purchase/sale of collateral, the SIS Lombard safe custody account is pledged in favour of the SNB. This affords the SNB the option of providing liquidity in emergencies, even if collateral can no longer be supplied in the usual manner.

Under the current National Bank Law, there are differences between the collateral that is accepted for Lombard transactions and that accepted for repo transactions. Only collateral acceptable for repo transactions may be used for repos at the Lombard rate and for obtaining intraday liquidity. Private placements by the public sector, bonds issued by domestic banks and corporates, as well as subordinated bonds will no longer be eligible as collateral in the new system. However, all collateral from the SNB GC Basket, the Euro GC Basket and the German Jumbo Pfandbrief GC Basket is acceptable. The SNB is willing to include other baskets in future, or to expand existing baskets, where necessary, provided the collateral meets the SNB's requirements as regards credit rating and liquidity.

Access to the new Lombard facility is conditional upon a bank maintaining a safe custody account with SIS, having a direct link with SIC and recourse to the Eurex Repo trading platform. Repos at the Lombard rate will be introduced in the first quarter of 2004 and will replace the traditional Lombard loan by the end of 2005. Accordingly, all banks that wish to continue benefiting from a Lombard facility at the SNB must have implemented the change in system by then.

SIS SegaInterSettle, Eurex Repo and the SNB will inform you in due course of the progress made with the project and the technical details. We kindly request that you introduce any necessary measures in preparation for the change in system. Please do not hesitate to contact us should you have any questions.

Yours sincerely,
Banque nationale suisse

E. Spörndli K. Hug